HOUSING MARKET OUTLOOK
Trois-Rivières CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Housing starts volume to remain high despite an expected decline in 2011*

Residential construction in the Trois-Rivières census metropolitan area (CMA), very robust in 2010, will remain so in 2011 . Starts are expected to set a record in 2010, thanks to the intense activity in the retirement rental housing segment. Despite an anticipated decline in 2011, the volume of starts will still remain high. On the resale market, the timid job market recovery will dampen activity over the next two years. On the other hand, net migration, which will remain strong in 2010 and 2011, will continue to stimulate

Figure 1

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**The forecasts included in this document are based on information available as of October 8, 2010.*

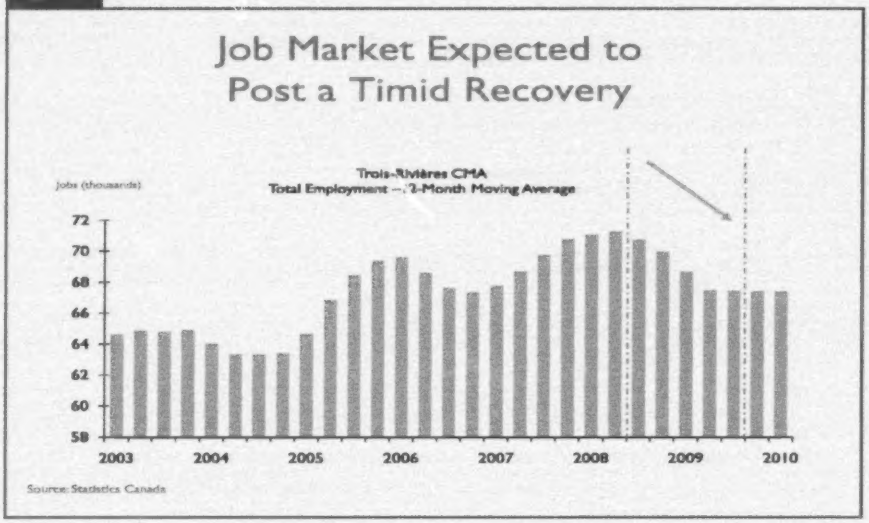
the residential real estate market in the Trois-Rivières CMA. The rental market, for its part, will stay relatively stable over the next two years.

Job market to post a timid recovery

After two rather sluggish years for employment, the outlook, a bit brighter for 2010, is also positive for 2011 in the Trois-Rivières CMA. The manufacturing sector has been severely tested in recent years, first, on account of a major slowdown in demand resulting from the global economic downturn and, second, because of a strong Canadian dollar against the American dollar. With the progressive improvement in the global economy and, more particularly, in the United States economy, the timid recovery in this sector in 2010 is expected to continue in 2011, and manufacturers' order books should start slowly filling up again. However, this recovery will be progressive, limited by the strength of the Canadian dollar in relation to its U.S. counterpart, which will still affect the competitiveness of manufacturing companies on this side of the border.

Construction (residential and non-residential sectors) will still show relative strength, especially in 2010. In fact, housing starts are expected to set a record in 2010, and there are several public infrastructure projects under way. In 2011, while residential construction will ease slightly, following an exceptional year in 2010, the level of starts will remain historically high. However, a slowdown in activity is to be expected in the non-residential construction sector, as a number of projects will be completed. In addition, major rehabilitation work on a nuclear energy plant, which was initially slated to begin in 2011, is being postponed until 2012. Finally, the gradual improvement in the economic climate will also give a boost to the service sector, which will pick up some steam in 2010 and 2011, with consumers opening up their wallets more easily.

Figure 2



In conclusion, the labour market, without posting any gains, will not register any job losses in 2010 in the Trois-Rivières CMA, and the number of jobs should remain stable there in relation to 2009. For 2011, employment is expected to grow by 3 per cent, as nearly 2,000 jobs should be created. However, this growth will not be sufficient to bring employment back to the level reached in 2007-2008 (before the global economic downturn).

Mortgage Rates

On September 8th, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Migration: driving force behind the Trois-Rivières real estate market

Overall, the demographic trends in the Trois-Rivières CMA will be favourable to the residential real estate market in 2010 and 2011. Although household formation is rather an indicator of housing demand over the longer term, small gains will be posted in 2010 and 2011.

However, household formation in the area will be impacted by opposing forces. On one hand, the number of young households (aged from 15 to 54 years) will decrease, while, on the other hand, older households (aged 55 years or older) will register an increase. Consequently, older households will be the ones who will be fuelling the growth in total households in the CMA. These demographic movements will shape the housing demand in the Trois-Rivières CMA over the coming years.

Migration, which has been very dynamic in the Trois-Rivières CMA since 2004/2005, will remain just as strong. In fact, net migration levels will reach record levels in 2010 and 2011, with the area benefiting from the increase in the Quebec government's immigration targets. In this regard, Trois-Rivières has been making efforts for the past few years to attract newcomers and especially to retain them in the area. Migration will therefore continue to stimulate the residential real estate market, especially the rental market, in the CMA in 2010 and 2011.

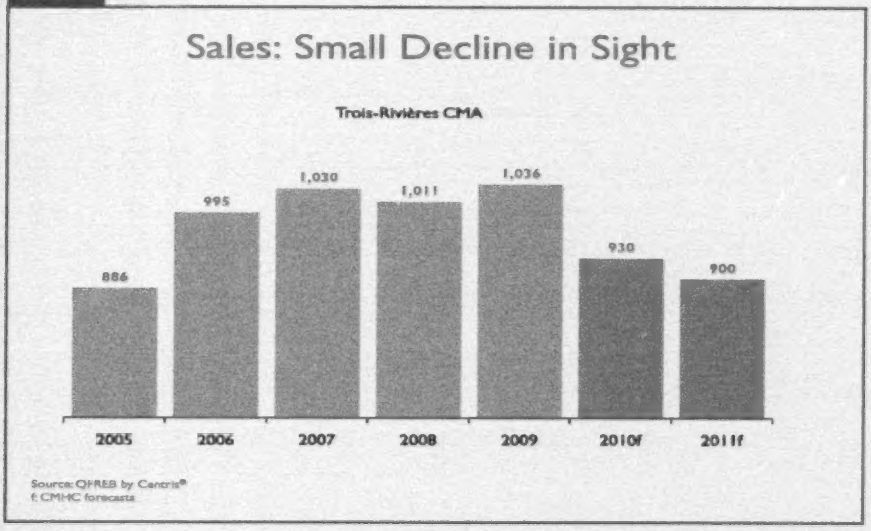
Resale market: despite lower sales, prices to keep rising in 2010 and 2011

After having registered an increase in 2009, existing home sales in the Trois-Rivières CMA will fall in 2010. With the intense activity attributable to the low mortgage rates that prevailed on the market at the end of 2009 now a thing of the past, the resale market will slow down. In fact, the move-up effect that resulted from the announcement that the key policy rate would be maintained at its lowest possible level until the spring of 2010 has waned. Consequently, the volume of transactions can be expected to decline over the rest of the year. As well, employment growth will be rather weak, which will limit activity on the resale market. On the other hand, mortgage rates will remain historically low, and financing conditions will still be favourable. The strong migration will also have a positive impact on the demand for existing homes, which will help curb the slowdown on the market. In all, 930 residential properties* will change hands in 2010 on the CMA territory, for a 10-per-cent decrease in sales.

In 2011, the anticipated job market recovery, along with the still strong migration in 2011, will slightly stimulate the demand for resale properties. Consequently, a smaller decline than in 2010 will be registered (-3 per cent), as 900 homes* will change owners.

Since the decrease in supply that occurred at the end of 2009, the inventory of homes for sale on the market has been rising, and this trend will continue over the next two years. As a result, the combined effect of the drop in sales and the growth in supply will allow the market to ease further. An indicator of the power relationship between sellers and buyers, the seller-to-buyer ratio will therefore progressively come out of the overheated range (characterized, among other things, by a seller-to-buyer ratio of less than 5 to 1) and

Figure 3



* *MLS® sales*

slowly start rising again. Even with this easing, though, the market will remain tight. As a result, over the forecast horizon, the overall Trois-Rivières CMA resale market will continue to favour sellers.

Given the forces at work on the resale market, prices will keep rising. While price hikes of 10 per cent, even 14 per cent, are now a thing of the past, the still tight market conditions will justify a relatively strong increase in the average price of residential properties. In fact, with sellers retaining their edge over the next two years, the price increases will be greater than inflation but less than the hikes of previous years. The average price of homes in the Trois-Rivières CMA will therefore reach $149,500 (+5 per cent) in 2010 and then $155,000 (+4 per cent) in 2011. Despite the price increases in recent years, it should be noted that the CMA market remains relatively affordable. In fact, Trois-Rivières has the lowest average price* in the province ($151,000), and even in the country, ranking right below the Saguenay area ($167,285), but far below the CMAs of Québec ($234,565) and Montréal ($295,365).

Construction: after a record year in 2010, a decline in 2011

Residential construction in the Trois-Rivières CMA will have been most active in 2010, as a record number of starts will be registered, thanks to the intense activity in the rental housing segment and, more particularly, in the retirement home category. Over 500 new units for seniors should therefore be enumerated on the Trois-Rivières territory in 2010, which is a very significant volume for a market of this size. This will be a one-time occurrence, though. In the case so-called traditional rental housing, activity in 2010 will be much like in the previous years, that is, very strong. Migration will continue to put upward pressure on the demand for such dwellings, and close to 550 starts should be recorded (compared to 542 in 2009). Overall, rental housing starts will reach a total of nearly 1,050 units—an unprecedented level in the CMA.

Likewise, starts of freehold* homes will also post a gain (+13 per cent). Continued affordable financing conditions, strong migration and a still tight resale market will stimulate construction in this segment. While single-detached home starts will remain stable, at 375 units, new semi-detached and row homes will register a marked increase (+62 per cent). It should be pointed out, however, that single-detached and row homes have shown greater volatility over the years than single-detached houses. That said, the strong price hikes recorded in recent years have increasingly guided construction towards more affordable housing types, such as semi-detached and row houses. This trend can already be noted on the existing home market, which remains particularly tight and where listing periods are very short for properties in the mid- and low-price ranges (<$150,000).

A total of 1,600 starts should therefore be enumerated on the CMA territory in 2010, compared to 1,027 in 2009 (+ 56 per cent).

Following this circumstantial increase in activity, a decrease is to be expected for 2011, as no retirement housing starts are expected. In addition, the increase in the number of existing properties for sale on the market will weaken demand for new construction. On the other hand, the still strong migration and job market recovery will limit the decline. Starts of freehold homes and traditional rental dwellings will therefore register decreases of 12 per cent and 13 per cent, respectively, next year. In all, there should consequently be 950 new units recorded in 2011 (-40 per cent). Despite this decrease, activity will remain strong, as the anticipated starts volume will remain historically high, with the annual average for the last 15 years hovering around 700 units.

Rental market less tight than in recent years

The significant growth in the supply of new rental housing units in the CMA in recent years, the sluggish job market and the movement to homeownership, which picked up the pace on account of the low interest rates, allowed the rental market to ease in 2009 in the Trois-Rivières CMA. However, the strong migration limited the easing, and the vacancy rate reached 2.7 per cent, compared to 1.7 per cent a year earlier.

In 2010, the decline in demand, resulting from the still shaky job market, and the arrival of many new rental housing units on the market will be offset by strong migration, which will stimulate demand. Consequently, rental market conditions will remain

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* *For the first three quarters of 2010.*

** *Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).*

stable in the CMA in 2010, and the proportion of unoccupied units will stay at 2.7 per cent. In 2011, while the supply of new rental housing units will still be abundant, the job market recovery and the strong migration will put upward pressure on the demand for rental housing in the CMA. The rental market will therefore tighten slightly, and the vacancy rate will fall to 2.5 per cent.

The recent easing of the market will lead to smaller rent increases than in past years. For the next two years, the rise in the average rent will be close to inflation. The average rent for two-bedroom apartments will therefore reach $530 in 2010 and $540 in 2011.

Forecast Summary Trois-Rivières CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	1,030	1,011	1,035	930	-10.1	900	-3.2
MLS® Active Listings	470	531	455	500	9.9	530	6.0
MLS® Average Price ($)	132,113	138,366	142,048	149,500	5.2	155,000	3.7
New Home Market							
Starts:							
Single-Detached	430	373	375	375	0.0	360	-4.0
Multiples	767	775	652	1,225	87.9	590	-51.8
Starts - Total	1,197	1,148	1,027	1,600	55.8	950	-40.6
Average Price ($):							
Single-Detached	184,966	195,052	199,774	204,500	2.4	209,000	2.2
Rental Market[2]							
October Vacancy Rate (%)	1.5	1.7	2.7	2.7	_	2.5	_
Two-bedroom Average Rent (October) ($)	487	505	520	530	_	540	_
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	70,800	70,000	67,400	67,400	0	69,000	2.4
Employment Growth (%)	5.2	-1.1	-3.7	0.0	-	2.4	-
Unemployment rate (%)	7.8	8.0	8.8	9.0	-	8.8	-
Net Migration	667	795	825	900	9.1	950	5.6

[1] *Source: QFREB by Centris®*

[2] *Privately initiated rental apartment structures of three units and over*

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC forecasts (2010-2011)

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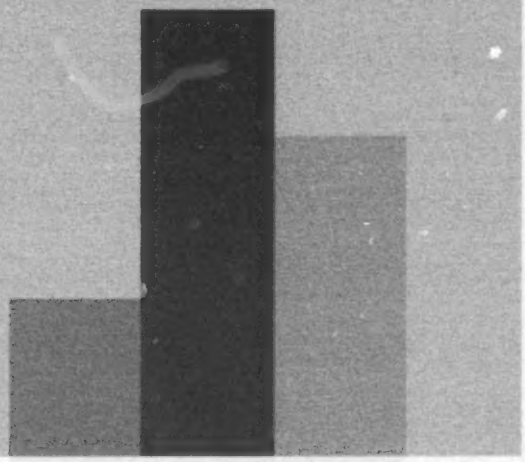

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